



October 17, 2006

AGENDA ITEM 4

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Revised Statement of Investment Policy for Self-Funded Health Plans
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

The Self-Funded Health Plans have consistently had a surplus of funds (reserves) in the Surplus Money Investment Fund (SMIF) over the past several years which have been invested in a fixed income portfolio with a very short duration benchmark. Based upon an internal audit issued January 2005, it was recommended that Self-Funded management staff work with the Investment Office to determine whether the current investment policy supports the Health Program's objective to manage the risk and volatility of assets and liabilities. Health staff working with the Investment staff and Wilshire Consultants recommended a change from the short-term benchmark to a more intermediate benchmark (Lehman Brothers U.S. Aggregate Index).

Currently the Self-Funded Health Plans funds are invested in short-term securities. Initially the fund was managed by the State Treasurer's Office. The funds transitioned to the CalPERS Investment Office while maintaining a short-term benchmark. Investment staff proposed greater potential returns by finding a longer term benchmark but was concerned about liquidity requirements.

Health staff looked at core funding levels to determine if there were funds that could be invested farther out on the yield curve for greater potential return. It was determined that there are core funds (reserves) that could be incorporated into a revised Investment Policy. Investment staff proposed changing the benchmark to a longer duration, which would allow the portfolio to be managed for a higher yield and total return. This new Self-Funded Health Plans' investment policy was

approved by the Investment Policy Subcommittee on August 11, 2006 (Attachment 1), by the Investment Committee on September 11, 2006 (Attachment 2) and adopted by the CalPERS Board on September 13, 2006.

V. STRATEGIC PLAN:

This item supports the CalPERS Strategic Plan, Goal III: Design, develop, and administer benefit programs and business processes that are innovative, effective, efficient, and valued by our members, employers, and stakeholders.

VI. RESULTS/COSTS:

This item is presented as information only.

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Attachments